



STATE OF UTAH INSURANCE DEPARTMENT  
REPORT OF FULL-SCOPE FINANCIAL EXAMINATION

of

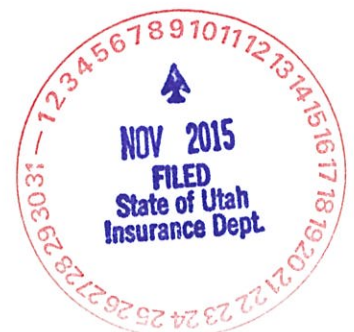
**UNITED INSURANCE COMPANY**

of

Provo, Utah

as of

December 31, 2014



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October 6, 2015

Honorable Todd E. Kiser, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, a full-scope examination, as of December 31, 2014, has been made of the financial condition and business affairs of:

**UNITED INSURANCE COMPANY**  
Provo, Utah

hereinafter referred to in this report as the “Company” and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

Period Covered by Examination

The Utah Insurance Department (Department) called a full-scope examination of the Company in accordance with Utah Code Annotated (U.C.A.) § 31A-2-203(5). The last examination covered the period of January 1, 2008 through December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2014.

Examination Procedures Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

The examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not

included within the examination report but separately communicated to the Company via management letter.

## SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings noted for inclusion in this report.

## COMPANY HISTORY

### General

The Company was incorporated on March 16, 2004 as a stock corporation in the State of Utah and commenced business on November 9, 2004. The Company currently writes personal non-standard auto, commercial auto and commercial multi peril insurance in Utah and personal non-standard auto in Arizona.

### Dividends and Capital Contributions

The Company did not declare, nor paid any dividends to its stockholders. The Company did not receive any significant capital contributions during this examination period.

### Mergers and Acquisitions

On July 1, 2013, the Company merged with EZ Auto Insurance Company, a former affiliate. The merger resulted in an increase to the Company's capital and surplus in the amount of \$875,393, which was recorded as an upward adjustment to the Company's 2012 capital and surplus.

## MANAGEMENT AND CONTROL

The Company's bylaws indicated the Board of Directors shall be no less than five (5), nor more than eight (8).

The following directors served as of December 31, 2014:

Name and Location	Title and Principle Occupation
Lynn Gordon Connelly Provo, Utah	President and Chief Executive Officer United Insurance Company
Gregory John Heiner Provo, Utah	Treasurer United Insurance Company
Ronald Ejnar Nielsen Lindon, Utah	President and Chief Executive Officer Utah Business Insurance Company
Joseph Foch Ollivier Ranchos Palos Verdes, CA	President First Capital Funding
Charles David Westover Provo, Utah	Secretary United Insurance Company
Shon Michael Whitney Provo, Utah	Vice President of Operations Focus Enhancements

The following officers served as of December 31, 2014:

Name	Office
Lynn Gordon Connelly	President and Chief Executive Officer
Charles David Westover	Secretary
Gregory John Heiner	Treasurer

The Company only had an Audit Committee in place as of December 31, 2014:

Audit Committee
Ronald Ejnar Nielsen
Joseph Foch Ollivier
Shon Michael Whitney

#### Corporate Records

**Minutes Review** – The minutes of the meetings of the Board of Directors, committees, and the annual meetings of the stockholder for the period of the examination through the completion of fieldwork were reviewed. The minutes reflected the ratification, confirmation, and approval of the transactions and events undertaken by the Board of Directors.

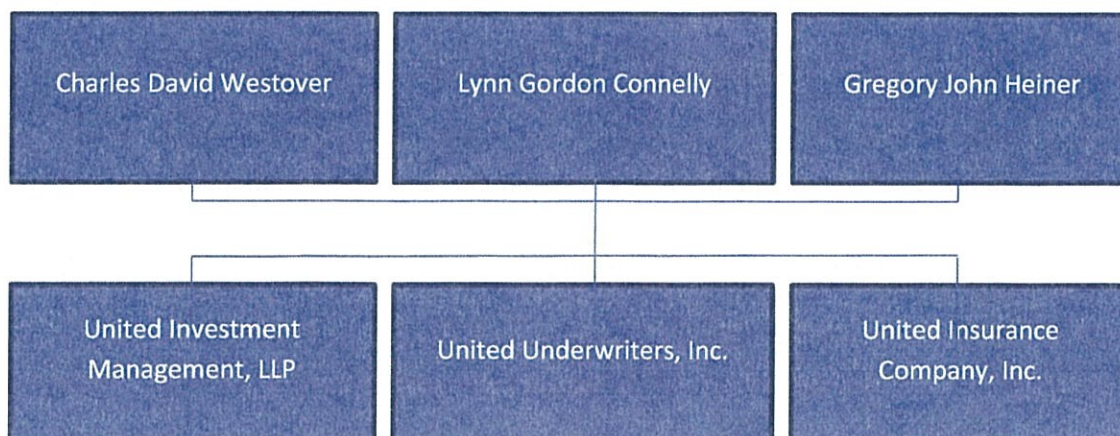
**Conflict of Interest** – The Company has an established policy for the identification and disclosure, to the Board of Directors, of any potential conflict of interest on the part of any director or officer. During the period covered by this examination, directors and officers appropriately completed conflict of interest statements.

#### Holding Company

The Company is part of a holding company system. Lynn Gordon Connelly has 28.7% ownership, Charles David Westover has 27.5% ownership, and Gregory John Heiner has 18.6% ownership. The remaining ownership is with minority owners.

United Investment Management, LLP and United Underwriters, Inc. are affiliate companies in the holding company system.

The following is the organizational chart for the holding company:



#### Affiliated Agreements

The Company has an administrative agreement with one of its affiliates, United Underwriters, Inc. (UU). As part of the agreement, UU provided the following services: advertising, underwriting, agent/agency management, premium tax reports and filing, accounting, underwriting, claims management, etc., in exchange for a fee of 30% of gross direct earned premium income.

### **TERRITORY AND PLAN OF OPERATION**

The Company currently writes personal non-standard auto, commercial auto and commercial multi peril insurance in Utah and personal non-standard auto in Arizona. The policies are marketed through a network of agency producers.

### **REINSURANCE**

#### Assumed

As of the examination date, the Company entered into a quota-share agreement with CSE Safeguard Insurance Company for the Utah commercial business produced by United Underwriters Inc. and written on CSE Safeguard Insurance Company paper.

Subsequently, as of January 1, 2015, the Company no longer has the quota-share agreement with CSE Safeguard Insurance Company.

#### Ceded

As of the examination date, the Company entered into an excess-of-loss agreement and a quota-share agreement with CSE Safeguard Insurance Company

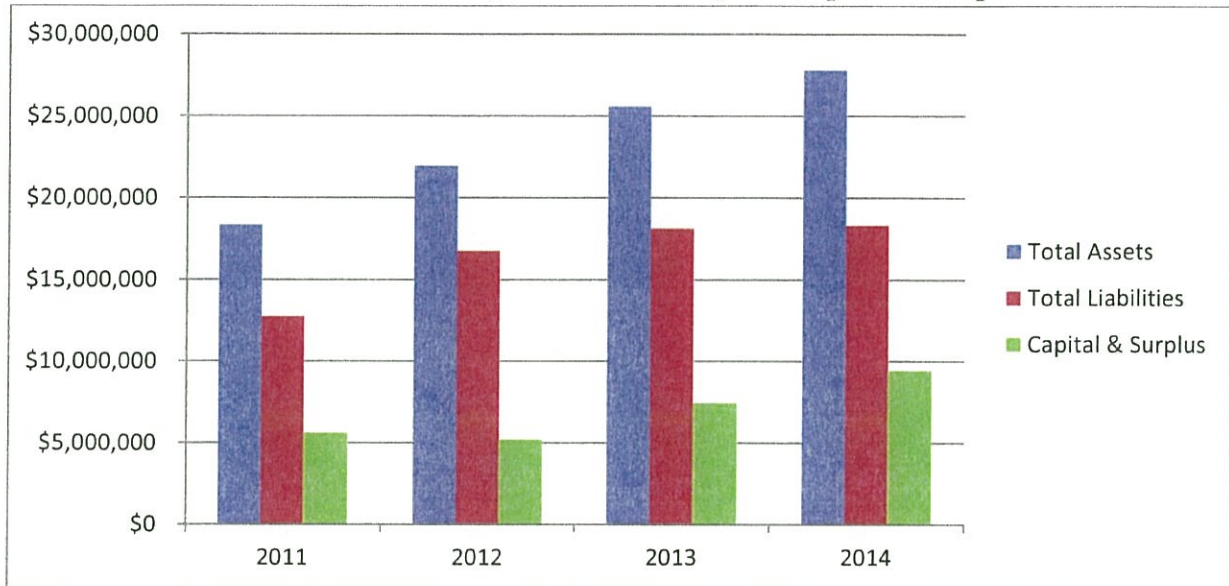
Subsequently, as of July 1, 2015, the Company no longer has the excess-of-loss agreement or the quota-share agreement with CSE Safeguard Insurance Company.



## GROWTH OF COMPANY

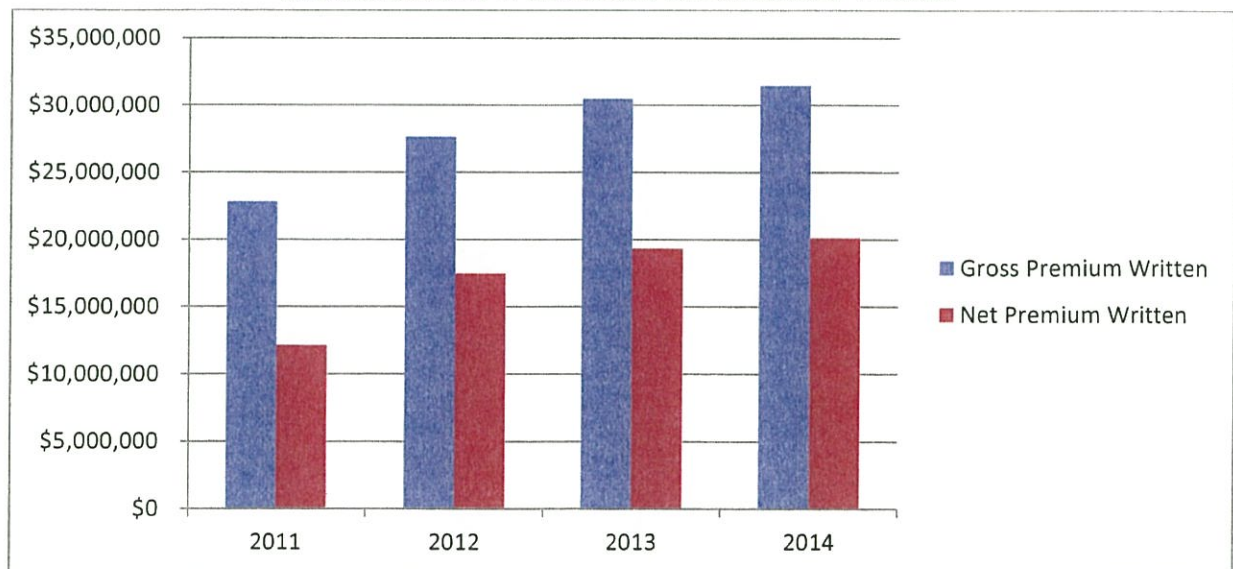
The Company's total admitted assets, capital and surplus, and premiums written steadily increase during the period of this examination as noted in the graphs below.

**Total Admitted Assets, Total Liabilities, and Capital & Surplus**



The amount of change for each year is noted for Gross Premium Written and Net Premium Written.

**Gross Premium Written and Net Premium Written**



## **LOSS EXPERIENCE**

The examination actuary retained by the Department reviewed the Company's appointed actuary's work on reserves. The examination actuary concluded the appointed actuary's analysis reflected reasonable assumptions, methodologies, and the estimates of the loss and loss adjustment expense (LAE) reserves were well documented and reasonable.

## **FINANCIAL STATEMENTS**

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.



**UNITED INSURANCE COMPANY**  
**BALANCE SHEET**  
as of December 31, 2014

<b>ASSETS</b>	<u>Net Admitted Assets</u>
Bonds	\$ 4,030,854
Preferred stocks	457,536
Common stocks	9,387,323
Cash, cash equivalents and short-term investments	<u>2,844,623</u>
Subtotals, cash and invested assets	16,720,337
Investment income due and accrued	55,584
Uncollected premiums and agents balances	1,312,177
Deferred premium, agents' balances and installments booked	6,985,634
Amounts recoverable from reinsurers	569,754
Receivables from parent, subsidiaries and affiliates	<u>2,137,180</u>
Total assets	\$ <u>27,780,666</u>

<b>LIABILITIES</b>	<u>Current Year</u>
Losses	\$ 8,538,126
Reinsurance payable on paid losses and LAE	62,011
Loss adjustment expenses	631,148
Taxes, licenses and fees (excluding federal and foreign income taxes)	117,521
Current federal and foreign taxes	(220,420)
Unearned premiums	5,783,133
Advanced premium	167,723
Ceded reinsurance premiums payable (net of ceding commissions)	3,238,978
Aggregate write-ins for liabilities	<u>23,319</u>
Total liabilities	\$ 18,341,540

<b>SURPLUS AND OTHER FUNDS</b>	
Common capital stock	2,396,624
Unassigned funds (surplus)	<u>7,042,501</u>
Surplus and regards policyholders	<u>9,439,126</u>
Total Liabilities and Surplus	\$ <u>27,780,666</u>

**UNITED INSURANCE COMPANY**  
**STATEMENT OF INCOME**  
as of December 31, 2014

Premiums Earned	\$ 19,877,002
Losses incurred	11,315,735
Loss adjustment expenses incurred	1,997,223
Other underwriting expenses incurred	4,528,134
Total underwriting deductions	<u>17,841,092</u>
Net underwriting gain/(loss)	2,035,910
 Net investment income earned	 304,632
Net realized capital gains/(losses)	138,638
Net investment gain/(loss)	<u>443,270</u>
 Net income/(loss) before dividends to policyholders	 2,479,180
 Net income/(loss) after dividends to policyholders	 <u>2,479,180</u>
 Federal and foreign income taxes incurred	 <u>751,004</u>
 Net Income/(Loss)	 <u>\$ 1,728,176</u>

**UNITED INSURANCE COMPANY**  
**RECONCILIATION OF CAPITAL AND SURPLUS**  
**2011 through 2014**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Surplus as regards to policyholders, December 31 prior year	\$3,799,111	\$3,964,312	\$5,188,089	\$7,435,793
Net Income/(Loss)	178,095	540,772	2,030,194	1,728,176
Change in net unrealized gains or (losses) less capital gains tax of \$0	(22,243)	(183,040)	225,784	286,461
Change in deferred income tax	9,348	(9,348)	(13,702)	
Capital changes:				
Paid in			5,428	(11,303)
Change in surplus as regards policyholders	<u>165,201</u>	<u>348,384</u>	<u>2,247,704</u>	<u>2,003,333</u>
Adjustment Due to Merger		<u>875,393</u>		
Surplus as regards to policyholders current period	<u>\$3,964,312</u>	<u>\$5,188,089</u>	<u>\$7,435,793</u>	<u>\$9,439,126</u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No financial adjustments were determined necessary for examination purposes.

## **COMMENTS ON FINANCIAL STATEMENTS**

### Capital and Surplus

\$9,439,126

The Company's capital and surplus was determined to be the same as reported in the annual statement as of December 31, 2014.

## **SUBSEQUENT EVENTS**

As of January 1, 2015, the Company no longer has the assumed quota-share reinsurance agreement with CSE Safeguard Insurance Company.

As of July 1, 2015, the Company no longer has the ceded excess-of-loss reinsurance agreement or the ceded quota-share reinsurance agreement with CSE Safeguard Insurance Company.

## **SUMMARY OF RECOMMENDATIONS**

There were no findings noted in the examination report that would warrant recommendations.

## **ACKNOWLEDGEMENT**

Alan Kaliski, FCAS, MAAA, of AGI Services, Inc. performed the actuarial phases of the examination. D. Shane Sadler, MPA, AFE, PIR, was the examiner-in-charge representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,



Malis Rasmussen, CFE, SPIR  
Examination Supervisor  
Utah Insurance Department